

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BEAR FORK GAS)
COMPANY FOR FARM TAP RATE) CASE NO. 2009-00207
INCREASE)

ORDER

On June 1, 2009, Bear Fork Gas Company ("Bear Fork") filed an application to increase its retail rate pursuant to KRS 278.485 and 807 KAR 5:026, the statute and regulation governing gathering systems that provide service to retail customers who have tapped onto such systems ("farm tap customers"). By letter dated June 8, 2009, the Commission notified Bear Fork that its rate application was rejected as deficient because it did not include the information necessary to satisfy the filing requirements contained in 807 KAR 5:026, Section 9. Bear Fork cured its deficiencies in a response submitted June 24, 2009, and included a proposed tariff sheet with rates to be effective September 1, 2009. Bear Fork supplied additional information in response to a data request by Commission Staff ("Staff") on July 17, 2009. There were no intervenors in this case.

BACKGROUND

KRS 278.485 requires every gas pipeline company obtaining gas from producing wells to provide service, upon request, to any customer whose property is located within one-half air-mile of the company's producing gas well

or gas gathering pipeline. Bear Fork has 83 such farm tap customers connected to 40 wells and is headquartered in Pike County, Kentucky.

Bear Fork states, that due to the increase in the cost of natural gas, it must adjust its farm tap rates. Bear Fork proposes the following increase in its farm tap rates:

	<u>Current</u>	<u>Proposed</u>	<u>% Increase</u>
Minimum Bill (1 Mcf)	\$ 6.00	\$10.00	66.6%
All Additional Mcf	\$ 4.25	\$ 6.50	52.9%

Although Bear Fork submitted information into the record in this case that supported a greater increase in rates than it proposed, Bear Fork stated that it felt that higher rates would be detrimental to its customers.

807 KAR 5:026, Section 9, allows a farm tap operator to request an adjustment in rates if: (1) the percentage change in rates does not exceed the percentage change in the price index during the most recent 12-month period immediately preceding the date the proposed tariff is filed¹ and (2) the proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the Commission and in effect on the date the proposed tariff is filed. The percentage change in the price index during the most recent 12-month period immediately preceding the proposed tariff was a 68.4 percent decrease.² Bear Fork's proposal for an increase of any amount

¹ 807 KAR 5:026 defines price index as the average of the producer price index-utility natural gas (PPI-05) for the most recent 12-month period as published monthly by the United States Department of Labor, Bureau of Labor Statistics.

² United States Department of Labor, Bureau of Labor Statistics, Producer Price Index-Commodities, Natural Gas, www.bls.gov.

would exceed a negative percentage change in the price index. Bear Fork's proposed rate does not exceed the highest average volumetric rate of a local gas distribution utility approved by the Commission. Because Bear Fork did not meet the test of each of the first two criteria, the regulation requires the utility to provide its costs to provide service during the previous two years, current within 90 days of the date the proposed tariff is filed. Bear Fork supplied an analysis of its administrative and proposed gas costs; it stated that it was using a 12-month New York Mercantile Exchange ("NYMEX") price strip and an Appalachian differential to calculate the gas cost portion of its rate. Despite the fact that Bear Fork's application stated that it had used the 12-month NYMEX strip as of April 1, 2009, information provided in response to a Staff data request showed that Bear Fork had actually computed a historical average of past "Inside FERC" First of Month Columbia Gas Transmission ("TCO") prices. Bear Fork had been asked in the data request to update its 12-month NYMEX strip to the current rate. Bear Fork's response filed July 17, 2009 did not update the rate but provided, instead, its original calculation of \$6.93 per Mcf based on the historical "Inside FERC" prices. The Commission notes that natural gas prices have been volatile since 2000 and finds that a price based on the NYMEX futures is more representative of current gas prices than a historical average. In prior farm tap cases, the Commission has approved this pricing mechanism as a reasonable proxy for the requirements of the regulation, the most recent being Case No. 2006-00460.³

³ Case No. 2006-00460, Application of G.S. Knox Gas Company to Increase Its Rates and Charges for Providing Farm Tap Service Pursuant to KRS 278.485 (Ky. PSC Jan. 22, 2007).

The Commission will continue to apply this method in determining the rate in this case. Using the \$5.0456 per Dth 12-month NYMEX strip rate as of July 17,⁴ the date of Bear Fork's data response, adding the average Appalachian differential of 30 cents that it had originally proposed, and adjusting for the heat content of the gas using the 1.234 BTU conversion factor produces a gas cost of \$6.60 per Mcf. Bear Fork had proposed a gas cost of \$8.87 per Mcf. Even using the lower gas cost, Bear Fork would be entitled to a greater increase than it proposed.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates in the Appendix to this Order are fair, just, and reasonable, in the public interest, and should be approved effective on and after September 1, 2009.

IT IS THEREFORE ORDERED that:


1. Bear Fork's proposed rate is approved.
2. The rates in the Appendix attached hereto and incorporated herein are approved for service rendered on and after September 1, 2009.
3. Within 20 days of the date of this Order, Bear Fork shall file with this Commission its revised tariff showing the effective date, the date of issue, and a statement that it is issued pursuant to this Order.

⁴ Metalprices.com for August 2009 through July 2010.

By the Commission

ENTERED *al*
AUG 19 2009
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2009-00207

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2009-00207 DATED **AUG 19 2009**

The following rates and charges are prescribed for the customers served by Bear Fork Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Minimum Bill (1 Mcf)	\$ 10.00
All Additional Mcf	\$ 6.50

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